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FAR EAST

1. British official warns of possible retaliation for Chinese Nationalist harassment of shipping:

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The British consul in Taipei, in conversation with a US embassy officer, warned of possible retaliation against Chinese Nationalist shipping in Hong Kong and Singapore for recent increased harassment of British ships by Nationalist naval vessels. The Nationalist measures have included the revocation of entry permits to Formosan ports for several British vessels.

Comment: Continued British participation in the mainland trade has been responsible for a deterioration in Chinese Nationalist-British relations in the past month. On 23 July, for the first time since the Korean war began, a British warship clashed with three Nationalist gunboats to rescue a British coaster intercepted in the Formosa Straits. On 29 July, according to a press report from Hong Kong, another British coaster was fired on and intercepted near Foochow.

SOUTHEAST ASIA

2. Further economic deterioration and civil disorders foreseen in Indonesia:

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The American embassy in Djakarta believes that the new Communist-influenced cabinet will pass measures seriously damaging the Indonesian economy and likely to increase civil strife.

The embassy foresees that the government will not take severe measures against Communist armed groups, will permit the sale of rubber to Communist China, may terminate American aid and take increasingly antagonistic moves against foreign industry.

Comment: Past performance of the Communist-National Party bloc indicates that the cabinet very likely will introduce the policies mentioned by the embassy.

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Leaders of the Masjumi, the chief opposition party, reportedly are planning a strongly anti-Communist propaganda campaign. Many army and police officials are known to oppose the cabinet, and the Indonesian press also is generally dissatisfied with the new government.

NEAR EAST - AFRICA

3. Iranian prime minister makes violent attack on US policy:

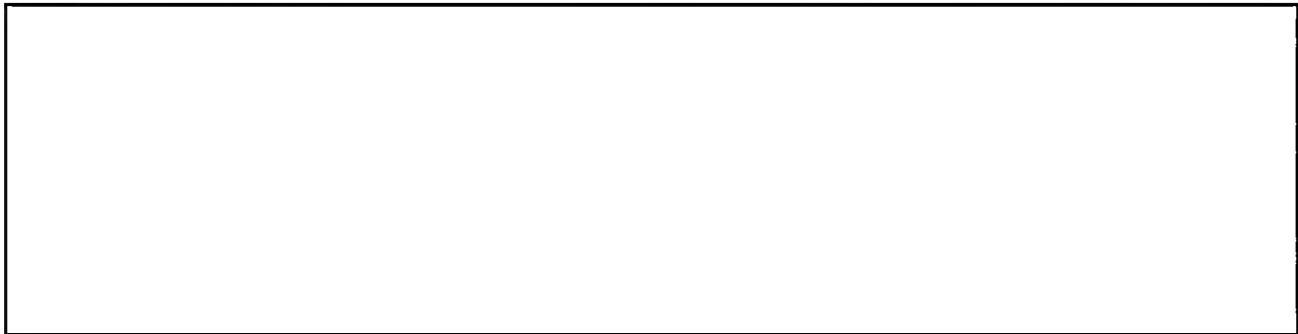
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According to Prime Minister Mossadeq's son, Dr. Gholam Mossadeq, the prime minister considers the effect on Iranian public opinion of President Eisenhower's letter to be worth \$50,000,000 to the Soviet Union.

In a conversation with US embassy officers on 1 August, Gholam insisted that the people were disgusted to find the United States "so brazenly behind the British," and he insisted that America's "stupid diplomacy" alienated the only pro-American group in Iran, the middle class led by his father.

Comment: Mossadeq appears to be re-assessing his policy toward the United States. This may be warning that an open anti-American campaign will result from a continued US refusal to aid Iran.

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5. Little progress achieved in initial Anglo-Egyptian contacts:

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Egyptian foreign minister Fawzi, in commenting to Ambassador Caffery on the informal contacts which have been established with British spokesmen, stated: "I was not

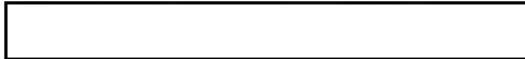
left with much optimism." Fawzi pointed out that these contacts were used by the Egyptians to improve the atmosphere and did not touch on the details of the points at issue.

The question of future availability of the base reportedly was the only point discussed.

Comment: Vice Premier Nasr confirmed to an official of the American embassy that initial contacts with the British hardly touched on substantive matters and declared that the atmosphere was "not bad." He expressed concern lest the British make the mistake of thinking that the Egyptians are bluffing in their demands.

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6. Libyan king reportedly seriously ill:

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King Idriss reportedly is seriously ill, according to American chargé Summers in Tripoli. Summers states that Prime Minister Muntasser requested that a doctor be sent from Wheelus Airbase to the monarch in Benghazi.

The charge points out that while the seriousness of Idriss' rumored illness is not yet known, the king's condition has caused some discussion of a possible successor.

Comment: Since he has no male heir, the king's death would bring serious confusion to a state which has faced political and economic difficulties since its establishment in December 1951. Any successor would have even less prestige than Idriss and would probably find his leadership contested in the country's three provinces.

The king's death could set back the progress already made on the Western base agreements, particularly the Anglo-Libyan pact.

WESTERN EUROPE

7. Austrian leaders favor dropping short treaty draft:

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Leaders of the Austrian coalition parties told Ambassador Thompson on 1 August that in their opinion the West should now drop the abbreviated draft treaty and try to get the USSR into substantive negotiations in which the Austrians would participate.

Chancellor Raab stated that he is hoping for an international loan which would enable Austria to meet its obligations under the long draft. On the neutrality issue, Foreign Minister Gruber observed that Austria might declare its willingness to forego membership in military pacts; this alone, he believes, would not mean "neutralization."

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Comment: The French and the British have long shared Austria's hesitancy toward US tactical support of the short treaty, and the 30 July Soviet note and recent Soviet "concessions" have apparently gone far toward convincing the Austrians that the prospects are good for a treaty.

Reported statements by Austrian Communists that the Soviet Union is prepared for bilateral settlements with the Austrians on various treaty issues, including the oil assets, are probable intended to fan these hopes further and increase Western alarm over the independent attitude of the Austrian government.

8. Comment on Piccioni's prospects for forming new Italian government:

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[redacted] Italian premier-designate Piccioni, vice premier under De Gasperi, faces considerable opposition within his own Christian Democratic Party and appears unlikely to be able to form a stable government.

The Christian Democratic left wing, which controls about two thirds of the party's 263 seats in the 590-seat Chamber of Deputies, opposes him because of his rightist views, his championship of collaboration with the Monarchists, and his preference for close cooperation with Catholic Action. The left wing has already threatened to split off if the party allies itself with the Monarchists, who control 40 seats in the chamber. Its leader Taviani in particular has strongly warned against a continued government drift to the right in the face of a clear popular electoral trend to the left.

Furthermore, even the Liberal Party, the most conservative of the three minor democratic parties, is, in view of its anticlericalism and the gains of its anti-Monarchist wing in the 7-8 June elections, unlikely to give full support to a Piccioni cabinet.

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